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**TO:** Chief Fiscal Officers  
**FROM:** Magdalene D. Haggerty, CPA  
Accounting Services Director  
**DATE:** April 26, 2004  
**SUBJECTS:** Excludability of Court Collections Remitted to the State and Accounting for Prior Years Carryforward

We have received several questions regarding remitting court collections under Arizona Revised Statute (A.R.S.) §12-116.04 and accounting for carryforwards by entities who have implemented Governmental Accounting Standards Board (GASB) Statements 34 and 35. This memo addresses the excludability of the portion of county and municipal court collections transferred to the State; and reviews how counties, municipalities, and community college districts should account for prior years carryforward and when it may be excluded.

**A.R.S. §12-116.04**

Laws 2003, Chapter 263, Section 8 added A.R.S. §12-116.04 requiring the transfer of a portion of county and municipal court collections (as defined in the statute) to the State General Fund for state employee health insurance and retirement increases in fiscal year 2004. Each county, city, or town whose court collections exceed the established baseline amount is required to remit 75 percent of the excess to the State General Fund.

If a county, city, or town reports expenditures on its fiscal year 2004 expenditure limitation report for county or municipal court collections transferred to the State under A.R.S. §12-116.04, the entity may exclude the amount of these expenditures on Part II, line B.3, Trustee or custodian.

**Prior Years Carryforward**

GASB Statements 34 and 35 have necessitated several changes in the expenditure limitation reports for counties, cities, towns, and community college districts. However, accounting for prior years carryforward and when it may be excluded have **not** changed.

Only expenditures of local revenues as defined by Arizona Constitution, Article IX, §§20 and 21 are subject to an entity's expenditure limitation. These sections exclude certain revenues from the definition of local revenue, which are listed on Part II of the expenditure limitation report and referred to as constitutionally excludable revenues. Attorney General Opinion I88-017 concluded that if a county, municipality, or community college district receives constitutionally excludable revenues, but does not spend them in the year received, the revenues retain their character as excludable revenues as long as the original source of the revenue can be identified. For each carryforward of excludable revenues from a prior year or years, the *Uniform Expenditure Reporting System* requires that an entity specifically identify in its accounting records, by fund, the nature of the exclusion, the amount of the carryforward, and the fiscal year in which the carryforward was generated.

Entities may exclude a prior year's carryforward of constitutionally excludable revenues on Part II of the expenditure limitation report in the year the revenues are spent. If an entity is authorized to transfer constitutionally excludable revenues to another fund, these revenues may be excluded when spent from the fund receiving the transfer. If revenues that are carried forward are restricted as to use, those monies must be spent in accordance with those restrictions.

If you have any questions, please call Michael Stelpstra, Accounting Services Manager, or me at (602) 553-0333.

MDH/ms